

Project Title	Agency Priority	Funding Source	Agency Request			Governor's Rec	Governor's Planning Estimates	
			2006	2008	2010	2006	2008	2010
Permanent Supportive Housing Loans	1	GO	\$33,000	\$25,000	\$30,000	\$25,000	\$30,000	\$30,000
Land Acquisition Revolving Loans	2	GO	5,000	0	0	0	0	0

Project Total	\$38,000	\$25,000	\$30,000	\$25,000	\$30,000	\$30,000
General Obligation Bonding (GO)	\$38,000	\$25,000	\$30,000	\$25,000	\$30,000	\$30,000

Funding Sources:	GF = General Fund	THF = Trunk Highway Fund	OTH = Other Funding Sources
	GO = General Obligation Bonds	THB = Trunk Highway Fund Bonding	UF = User Financed Bonding

Agency Profile At A Glance

Two-Year State Budget:

- ◆ \$1.14 billion all funds
- ◆ 4 Sources:
 - ⇒ 46% bond sales
 - ⇒ 28% federal funds
 - ⇒ 18% agency resources
 - ⇒ 8% state appropriations

Annual Business Processes:

- ◆ Provided \$534 million in housing assistance in FFY 2004.
- ◆ Served 55,600 households.
- ◆ 72% of all households served had annual incomes under \$20,000; 45% of the households served did not receive section 8 assistance and had incomes below \$20,000.

Agency Purpose

The Minnesota Housing Finance Agency (MHFA) is committed to meeting Minnesotans' needs for decent, safe, affordable housing, and stronger communities.

The agency's strategic plan sets forth the following policy objectives:

- ◆ end long-term homelessness
- ◆ increase homeownership for underserved populations
- ◆ preserve existing affordable housing
- ◆ increase housing choice for low and moderate income workers to support economic vitality
- ◆ the MHFA should be viewed as a housing resource of choice

Core Functions

MHFA funds housing activity in five broad areas:

- ⇒ **Development and Redevelopment Programs.** These programs fund the new construction and rehabilitation of rental housing, and homes for ownership for families with a range of incomes.
- ⇒ **Homeownership Loan Programs.** These programs fund home purchase and home improvement loans for families and individuals with a range of incomes not served by the private sector alone.
- ⇒ **Supportive Housing Programs.** These programs fund housing development, rental assistance, and homeless prevention activities for very low-income families and individuals who often face other barriers to stability, economic self-sufficiency, and independent living.
- ⇒ **Preservation of Federally Assisted Housing Programs.** These programs seek to preserve the stock of federally assisted rental housing that is in danger of being lost due to opt-outs for market reasons, physical deterioration, or both.
- ⇒ **Resident and Organization Support.** These programs provide operating funds for organizations that develop affordable housing, offer homebuyer training, education, and foreclosure prevention assistance, or coordinate regional planning efforts.

Operations

Management and control of the agency is vested in the board of directors. The board is comprised of six citizen members appointed by the governor and one ex-officio member: the state auditor. The board directs the policies of the agency and adopts an affordable housing plan, approves funding decisions, adopts finance policies, and selects the finance team.

The agency staff includes 190 full-time equivalent employees in three major divisions: housing finance and operations; housing programs; housing policy. Over half of all the employees are professional level employees.

- ⇒ The housing finance and operations staff are responsible for the management of the assets and liabilities of the agency which includes a portfolio of housing related loans and other investments totaling \$2.8 billion, \$1.8 billion of which are financed by mortgage revenue bonds. The staff manages the process of raising capital through periodic debt

issuances. The staff in this division also prepares financial forecasts, budgets, and fiscal year-end audited financial reports for all funds and accounts. Staff is responsible for the accurate and timely reporting of all accounting and financial information necessary to comply with disclosure requirements and board policies. This division also includes the staff managing the agency's information systems and human resources staff.

- ⇒ The staff of the multifamily portion of the housing programs division manages the process of assisting in the financing of new construction, rehabilitation, and preservation of rental housing. This staff oversees the provision of tenant support services, rental assistance, and homeless prevention activities. The staff is also responsible for the oversight of the management of the agency's portfolio of rental housing, monitoring compliance with state and federal requirements, and administering the Section 8 contracts of 32,000 units of rental housing that include the contracts on 18,000 units previously administered by Housing and Urban Development (HUD).
- ⇒ The homeownership portion of the housing programs division staff manages programs to assist with the financing of home purchases and home improvements. It also manages the process of assisting in the financing of new home construction for ownership and neighborhood revitalization. The staff oversees the provision of homeownership education services. The staff also administers programs that provide post-purchase support and foreclosure prevention for homeowners.
- ⇒ The housing policy division includes governmental affairs, research, and policy.

The agency's assistance is delivered through local lenders, community action programs, local housing and redevelopment authorities, and for-profit and nonprofit developers. MHFA joins with other public and private funders to make available development and redevelopment funds in a comprehensive, single application, one-stop selection process.

Budget

MHFA's largest source of financing is the sale of tax-exempt and taxable bonds that totals approximately 46% of the agency's budget. Proceeds from the sale of these bonds provide mortgage loans to first-time homebuyers and rental housing developments. Repayments made to programs funded by mortgage revenue bonds are made available for the same activities.

Agency resources constitute 18% of the agency's budget. Agency resources are earnings over the years in excess of funds needed to cover loan loss and self-insurance. Agency resources are used for a variety of housing activities including entry cost assistance, activities related to the initiative to end long-term homelessness, first mortgage financing of rental properties, and preservation of MHFA financed rental properties.

Federal funds constitute 28% of MHFA funds. In FY 2004-05 biennium, the two largest programs receiving federally appropriated funds were the Section 8 Housing Assistance payments program and the Home Investment Partnership Program (HOME). In the past, the agency has received federal funding for a number of smaller programs as well.

State appropriations constitute 8% of the total program funds expected to be distributed in FY 2004-05. State appropriations for the FY 2004-05 biennium total \$70,270,000 from the General Fund including \$300,000 in the one-time only funds for flood recovery assistance to Roseau.

Contact

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The MHFA web site at www.mhfa.state.mn.us provides information about agency programs, application forms and procedures, and other useful information for persons seeking assistance with the financing of affordable housing.

At A Glance: Agency Long-Range Strategic Goals

- ◆ End long-term homelessness
- ◆ Increase homeownership for underserved populations
- ◆ Preserve existing affordable housing
- ◆ Increase housing choices for low and moderate-income workers to support economic vitality
- ◆ The Minnesota Housing Finance Agency (MHFA) should be viewed as a housing resource of choice

Trends, Policies and Other Issues Affecting the Demand for Services, Facilities, or Capital Programs

MHFA capital bonding request for permanent supportive housing is a major component of the agency's plan to achieve its goal of ending long-term homelessness.

Thirty-five percent (35%) of the adults and unaccompanied youth represented in the most recent Wilder Research Center's Statewide Survey on Homelessness have been homeless for more than 12 months. It is estimated that about 3,100 adults are chronically homeless in Minnesota.

Conservative estimates find that 44% of the chronically homeless suffer from a serious or persistent mental illness and 30% report a chemical dependency problem. Twenty percent (20%) of the chronically homeless adults and unaccompanied juveniles report a dual diagnosis of both mental illness and chemical dependency. Research has found that those persons who chronically experience homelessness and who suffer from a mental illness or substance abuse consume a disproportionate share of the funds and services for homeless persons.

Supportive housing has the potential to either reduce costs to health care, mental health, chemical health, corrections, law enforcement, education, housing and child welfare systems, and usage of crisis services and out-of-home placement for children.

At least four studies in the last 15 months have examined the effectiveness of supportive housing in reducing costs to other systems, including health care, corrections, and chemical dependency services. All of the studies have found significant savings to one or more systems.

In April 2003 Hennepin County issued a summary of research findings on two supportive housing projects funded in part by the Hennepin County Children, Family and Adult Services Department (CFASD). These projects are being evaluated to whether supportive housing reduces residents' use of high cost crisis services and whether the overall service usage shows a shift towards long-term stability. The early findings show a reduction in crisis costs of an average of \$6,200 per family, primarily because of reduced chemical health treatment and children's staff in foster care. During the first six months of residence in supportive housing, there was a significant shift in CFASD funding from crisis services to supportive/preventive services. At this point in the study, supportive housing for chronically homeless families is essentially cost-neutral, but CFASD expects that over the long-term, as families achieve self-sufficiency, there will be savings from all types of CFASD interventions.

The Supportive Housing and Managed Care Pilot, which operates in Blue Earth and Ramsey counties, recently underwent a one-year evaluation. The pilot targets single adults and families whose homelessness is exacerbated by other difficulties such as medical problems, mental illness, chemical dependency, and histories of trauma. Many of the participants are high service utilizers, substantially driving up the costs of care across multiple service systems. The February 2003 report found that the pilot is having a positive impact on the participants even though change for these participants is incremental. More than half of the Ramsey County participants have been in their current housing for more than 13 months; all of the participants were either living in a shelter, on the streets, or were doubled up at the time of application. The Blue Earth County participants experienced a 57% decrease in child protection incidents after enrollment.

Hennepin County's Housing for Chronic Inebriates admits individuals with lengthy history of alcohol abuse and detox and emergency room encounters related to acute intoxication. The March 2003 analysis examined whether the residents of the two housing projects reduced their usage of detox and other emergency services while living in the residence. Both facilities say a

statistically significant decline in detox usage for its residents while they were in the program. While there was no statistically significant change in emergency room usage, the median cost of health care declined by \$4,000 per year.

Positive results were also shown by the Connecticut Supportive Housing Demonstration Program, which was initiated in 1992 to provide affordable, service-enriched rental housing for homeless and at-risk populations. The 2002 independent program evaluation found that supportive housing creates positive outcomes for tenants while decreasing their use of acute and expensive health services. Of the tenants who stayed in housing for three years, there was a 71% *decrease* in the average Medicaid cost per tenant using medical inpatient services. Two-thirds of the tenants reported being employed or in education and training programs.

Provide a Self-Assessment of the Condition, Suitability, and Functionality of Present Facilities, Capital Projects, or Assets

Funds for supportive housing have been included in the last seven major capital bonding bills. Demand for funding for permanent supportive housing is strong. There are currently twenty-seven applications pending at MHFA for funding totaling over \$15 million for permanent supportive housing projects. These requests far exceed the resources currently available for the development of permanent supportive housing.

Agency Process Used to Arrive at These Capital Requests

At the administration's request, the 2003 Minnesota Legislature directed the MHFA and the departments of Human Services and Corrections to convene a working group on supportive housing for persons experiencing chronic homelessness. The working group is charged with the responsibility of developing a "business plan" that included capital and operating cost estimates. The business plan being developed by the working group will refine the capital bonding request.

The U.S. Department of Housing and Urban Development requires the state to engage in a continuum of care planning process as part of the funding process for homeless programs. Development of continuum of care plans involves the participation of various interest groups and individuals in the

community or region. The Interagency Task Force on Homelessness supports the regional continuum of care planning in greater Minnesota by assigning members of the task force to work with the continuum of care planning communities in each region. The task force also provides resources to pay staff in regions to complete the continuum of care plans and sponsored training sessions to provide technical assistance for regional staff.

The continuum of care plan assigns relative priority to the different components of the continuum. Permanent supportive housing consistently ranks as a high priority.

Major Capital Projects Authorized in 2002 and 2003

MHFA has committed all of the \$16.2 million appropriated in the 2002 capital bonding legislation to two projects for permanent supportive and transitional housing for veterans and single adults who are homeless and at-risk of becoming homeless to be located on land owned by the U.S. Department of Veterans Affairs. One project will be located in Hennepin County and will provide 141 units of housing; the other project will be located in Saint Cloud and will provide 60 units of housing.

Permanent Supportive Housing Loans

2006 STATE APPROPRIATION REQUEST: \$33,000,000

AGENCY PROJECT PRIORITY: 1 of 2

PROJECT LOCATION: Statewide

Project At A Glance

- ◆ Loans to construct or acquire and/or rehabilitate permanent supportive housing for families with children and individuals who experience long-term homelessness.

Project Description

This request for \$33 million in bond funds is to construct, acquire, and rehabilitate approximately 400-660 units of permanent supportive housing for families with children and individuals who experience long-term homelessness or are at risk of becoming homeless for a long term. Funds would be made available to developments throughout the state on a competitive basis. This request conforms to the state’s business plan to end long-term homelessness developed by a working group established by the legislature in 2003. The business plan anticipated appropriations of \$20 million in general obligation bond proceeds in 2004 and \$25 million in 2006 to implement the business plan. A \$33 million appropriation in 2006 would bring implementation of the business plan back on track with respect to the general obligation bond proceeds portion.

Permanent supportive housing is the keystone of efforts to reform the way that various systems address problems of homelessness by moving from a band-aid approach to more cost-effective prevention and long-term solutions. Permanent supportive housing is affordable rental housing with links to the services necessary to enable tenants to live in the community and lead successful lives. Fifty-two percent of the adults and unaccompanied youth identified as long-term homeless reported suffering from a serious or persistent mental illness; another 24% reported a dual diagnosis of both mental illness and chemical dependency. Forty-eight percent of the adults

and unaccompanied youth identified as long-term homeless reported a chronic health condition.

Permanent supportive housing has demonstrated its cost effectiveness. Evaluations of permanent supportive housing programs across the country and in Minnesota have found that it can be provided without adding to the long-term costs currently incurred for this population by reducing the use of hospitals, jails, treatment centers, emergency rooms, shelters, and crisis services. Permanent supportive housing has the potential to improve the outcomes for homeless households, including increased employment and improved school attendance and educational achievement for the children.

The Wilder Research Center in its 2003 Wilder homelessness survey found that 20,347 Minnesotans are estimated to be homeless or precariously housed. This funding request, and the business plan, focus on the small subset of this population: those individuals and families with children who are experiencing long-term homelessness. Based on estimates from the 2003 Wilder Survey, at least 4,000 units of supportive housing are projected to be needed by 2010 to meet the goal of ending long-term homelessness. Approximately 28% of the homeless adults surveyed in the 2031 Wilder Survey lived in greater Minnesota, the remainder lived in the Twin Cities metropolitan area. Of the homeless persons living in the Twin Cities metro area, 5% reported that their last permanent address was in greater Minnesota.

The appropriation would be to the Local Government Unit Housing Account program (M.S. 462A.202, subd. 3a). The Local Government Unit Housing Account program provides deferred loans to local units of government for the development, construction, acquisition, improvement, or rehabilitation of housing properties for low or moderate income persons. Local units of government that own and manage the property, or contract with a service provider to operate the property for a minimum of 20 years, are eligible to receive program assistance. After 20 years, the loan is deemed paid in full.

Impact on Agency Operating Budgets (Facilities Notes)

Funding this program will have no impact on the agency’s operating budget. The ongoing operating costs or supportive services will be provided from

Permanent Supportive Housing Loans

other sources, including resident contributions, and federal, state, and local government funds.

Previous Appropriations for this Project

Since 1990, the legislature has appropriated funds each biennium for supportive housing developments as part of capital bonding legislation.

Other Considerations

The 2003 Minnesota Legislature directed the commissioners of the Housing Finance Agency, and the departments of Human Services, Corrections, and Employment and Economic Development, to convene a Work Group on Supportive Housing for Persons Experiencing Long-Term Homelessness. This group's mission was to develop and implement strategies to make the various systems more cost effective and to increase the employability and self-sufficiency of families with children and individuals who experience long-term homelessness. (Laws of Minnesota 2003, Chapter 128, article 15, section 9.) This Working Group submitted a report and business plan to the legislature in March 2004.

Real progress has been made in implementing the business plan. In 2004, 134 units of permanent supportive housing for the long-term homeless received funding commitments for construction or rehabilitation and 136 units were funded through rental assistance. The business plan set a goal of 200 units for 2004. More than 135 supportive housing units are currently in the pre-development stage.

The state will not be undertaking this commitment alone. In December 2004, organizations from the private sector capitalized an Innovation Fund to provide a flexible source of funding for elements of supportive housing and services that are not now funded through mainstream federal and state government programs.

Project Contact Person

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Governor's Recommendations

The Governor recommends general obligation bonding of \$25 million for this project. Also included are budget planning estimates of \$30 million in 2008 and \$30 million in 2010.

TOTAL PROJECT COSTS All Years and Funding Sources	Prior Years	FY 2006-07	FY 2008-09	FY 2010-11	TOTAL
1. Property Acquisition	0	0	0	0	0
2. Predesign Fees	0	0	0	0	0
3. Design Fees	0	0	0	0	0
4. Project Management	0	0	0	0	0
5. Construction Costs	0	0	0	0	0
6. One Percent for Art	0	0	0	0	0
7. Relocation Expenses	0	0	0	0	0
8. Occupancy	0	0	0	0	0
9. Inflation	0	0	0	0	0
TOTAL	0	0	0	0	0

CAPITAL FUNDING SOURCES	Prior Years	FY 2006-07	FY 2008-09	FY 2010-11	TOTAL
State Funds :					
G.O Bonds/State Bldgs	0	33,000	25,000	30,000	88,000
State Funds Subtotal	0	33,000	25,000	30,000	88,000
Agency Operating Budget Funds	0	0	0	0	0
Federal Funds	3,267	2,400	3,000	3,600	12,267
Local Government Funds	4,211	4,400	5,500	6,600	20,711
Private Funds	6,772	4,600	5,750	6,900	24,022
Other	0	0	0	0	0
TOTAL	14,250	44,400	39,250	47,100	145,000

CHANGES IN STATE OPERATING COSTS	Changes in State Operating Costs (Without Inflation)			
	FY 2006-07	FY 2008-09	FY 2010-11	TOTAL
Compensation -- Program and Building Operation	0	0	0	0
Other Program Related Expenses	0	0	0	0
Building Operating Expenses	0	0	0	0
Building Repair and Replacement Expenses	0	0	0	0
State-Owned Lease Expenses	0	0	0	0
Nonstate-Owned Lease Expenses	0	0	0	0
Expenditure Subtotal	0	0	0	0
Revenue Offsets	0	0	0	0
TOTAL	0	0	0	0
Change in F.T.E. Personnel	0.0	0.0	0.0	0.0

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS (for bond-financed projects)	Amount	Percent of Total
General Fund	33,000	100.0%
User Financing	0	0.0%

STATUTORY AND OTHER REQUIREMENTS	
Project applicants should be aware that the following requirements will apply to their projects after adoption of the bonding bill.	
No	MS 16B.335 (1a): Construction/Major Remodeling Review (by Legislature)
No	MS 16B.335 (3): Predesign Review Required (by Administration Dept)
Yes	MS 16B.335 and MS 16B.325 (4): Energy Conservation Requirements
No	MS 16B.335 (5): Information Technology Review (by Office of Technology)
Yes	MS 16A.695: Public Ownership Required
No	MS 16A.695 (2): Use Agreement Required
No	MS 16A.695 (4): Program Funding Review Required (by granting agency)
Yes	Matching Funds Required (as per agency request)
Yes	MS 16A.642: Project Cancellation in 2011

Land Acquisition Revolving Loans

2006 STATE APPROPRIATION REQUEST: \$5,000,000

AGENCY PROJECT PRIORITY: 2 of 2

PROJECT LOCATION:

Project At A Glance

- ◆ Provide revolving loan funding to reduce the gap between the costs of producing affordable entry-level homes for ownership or affordable rental housing and what Minnesota's workforce can afford to pay for housing.

Project Description

The Minnesota Housing Finance Agency (MHFA) requests \$5 million to make loans for the local units of government for the purchase of land for future development of residential housing. The gap between housing costs and family incomes continues to grow. Between 1990 and 2000 statewide median home values rose 24% while median family incomes rose only 15%. Land costs account for approximately 8-10% of the costs of new rental housing. Land costs in some metro counties are as high as \$200,000 per acre. The amount of needed gap can be reduced if some of the inflationary pressures on housing could be avoided by acquiring land well in advance of its development for housing.

The seven county metropolitan area is expected to grow by 1.5 million people by 2030. Based on a study commissioned by MHFA, the Metropolitan Council, the Family Housing Fund, and the Greater Minnesota Housing Fund, by 2010 there will be an unmet need for 22,000 affordable housing units.

This proposal is for a pilot program to fund the acquisition of land in advance of specific development activities is a new funding activity for MHFA. Many of the details of how such funding should operate need to be examined. It is

expected that acquisition plans would be required to be consistent with the Metropolitan Council's Regional Development Framework.

Impact on Agency Operating Budgets (Facilities Notes)

MHFA would administer the fund with existing resources.

Other Considerations

None.

Project Contact Person

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Governor's Recommendations

The Governor does not recommend capital funds for this project.

TOTAL PROJECT COSTS All Years and Funding Sources	Prior Years	FY 2006-07	FY 2008-09	FY 2010-11	TOTAL
1. Property Acquisition	0	5,000	0	0	5,000
2. Predesign Fees	0	0	0	0	0
3. Design Fees	0	0	0	0	0
4. Project Management	0	0	0	0	0
5. Construction Costs	0	0	0	0	0
6. One Percent for Art	0	0	0	0	0
7. Relocation Expenses	0	0	0	0	0
8. Occupancy	0	0	0	0	0
9. Inflation	0	0	0	0	0
TOTAL	0	5,000	0	0	5,000

CAPITAL FUNDING SOURCES	Prior Years	FY 2006-07	FY 2008-09	FY 2010-11	TOTAL
State Funds :					
G.O Bonds/State Bldgs	0	5,000	0	0	5,000
State Funds Subtotal	0	5,000	0	0	5,000
Agency Operating Budget Funds	0	0	0	0	0
Federal Funds	0	0	0	0	0
Local Government Funds	0	0	0	0	0
Private Funds	0	0	0	0	0
Other	0	0	0	0	0
TOTAL	0	5,000	0	0	5,000

CHANGES IN STATE OPERATING COSTS	Changes in State Operating Costs (Without Inflation)			
	FY 2006-07	FY 2008-09	FY 2010-11	TOTAL
Compensation -- Program and Building Operation	0	0	0	0
Other Program Related Expenses	0	0	0	0
Building Operating Expenses	0	0	0	0
Building Repair and Replacement Expenses	0	0	0	0
State-Owned Lease Expenses	0	0	0	0
Nonstate-Owned Lease Expenses	0	0	0	0
Expenditure Subtotal	0	0	0	0
Revenue Offsets	0	0	0	0
TOTAL	0	0	0	0
Change in F.T.E. Personnel	0.0	0.0	0.0	0.0

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS (for bond-financed projects)	Amount	Percent of Total
General Fund	5,000	100.0%
User Financing	0	0.0%

STATUTORY AND OTHER REQUIREMENTS	
Project applicants should be aware that the following requirements will apply to their projects after adoption of the bonding bill.	
No	MS 16B.335 (1a): Construction/Major Remodeling Review (by Legislature)
No	MS 16B.335 (3): Predesign Review Required (by Administration Dept)
No	MS 16B.335 and MS 16B.325 (4): Energy Conservation Requirements
No	MS 16B.335 (5): Information Technology Review (by Office of Technology)
Yes	MS 16A.695: Public Ownership Required
No	MS 16A.695 (2): Use Agreement Required
No	MS 16A.695 (4): Program Funding Review Required (by granting agency)
No	Matching Funds Required (as per agency request)
Yes	MS 16A.642: Project Cancellation in 2011